

TCG

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Regulatory Affairs

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October 30, 1996

RECEIVED**OCT 30 1996**BY HAND DELIVERY

William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: Ex Parte Presentations

Dear Mr. Caton:

On October 24, 1996, Paul Cain of Teleport Communications Group Inc. ("TCG") met with Deborah Kriete and Lee Palagyi of the staff of the Federal-State Joint Board on Universal Service to discuss the proposal put forth by the National Telecommunications and Information Administration for universal service support to schools and libraries. Mr. Cain had previously faxed to Ms. Kriete a table of TCG Rates for DS 1 Service, a copy of which is attached.

On October 24, 1996, Mr. Cain also met with Terry Monroe of the Joint Board Staff to discuss treatment of the Carrier Common Line Charge, the Subscriber Line Charge, and various methods for funding the universal service mechanism. Mr. Cain also presented Mr. Monroe with a copy of TCG's recent ex parte letter recommending that the Joint Board and the FCC reject GTE's auction proposal.

Sincerely,



Paul Cain

Attachments

cc: Deborah M. Kriete
Lee Palagyi
Terry Monroe

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List ABCDE

TCG

Regulatory Affairs

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October 18, 1996

VIA HAND DELIVERY

Chairman Reed E. Hundt
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Commissioner Sharon Nelson

VIA FIRST-CLASS MAIL

Commissioner Ken McClure
Commissioner Julia Johnson
Commissioner Laska Schoenfelder
Ms. Martha Hogarty

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Re: Federal-State Joint Board On Universal Service
CC Docket No. 96-45

OCT 30 1996

Dear Joint Board Members:

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

TCG strongly recommends that the GTE's proposal for auctions as a means of establishing support levels in high cost areas be rejected. Contrary to GTE's assertions in their formal comments to the FCC and in their recent comments to the press and others, their auction proposal is indeed a barrier to entry, and it is less efficient and more complex than any alternative.¹ Like most parties to this proceeding, GTE supports the use of cost studies to establish the initial subsidy level.² Under GTE's proposal, however, only the incumbent local exchange carriers would receive the initial subsidy amount. For a competitor to qualify for support, according to GTE, it must first engage in a bidding war with the incumbent and any other carrier wishing to serve an area. This approach is blatantly anticompetitive, and in this proceeding auctions should be prohibited except under very unusual circumstances, as discussed below. A more reasonable approach, and one that is competitively neutral, is to allow all providers access to the universal service support on identical terms and conditions.

1. In its order rejecting GTE's auction proposal in California (R.95-01-020 and I.95-05-01-021), the California Public Utilities Commission stated that "... auctions for all high cost areas would be administratively difficult. The Commission or its designee may have to become involved with numerous, ongoing auctions."

2. Since filing their initial comments in this proceeding, however, GTE has apparently suggested that auctions would replace cost studies entirely, even in the establishment of the initial support level.

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Adjustments to the support level will be made following periodic reviews of the rates charged for basic service by all carriers in an area. This approach is simpler, more efficient, and requires less regulatory intervention than GTE's proposal.

As discussed in TCG's comments in this proceeding, the completion of one accurate cost study is necessary for the purposes of establishing the initial funding requirement of the universal service mechanism.³ (In the past, GTE has agreed with TCG and most other parties regarding this element of the NPRM in this proceeding. As noted above, their position may have changed.) Contrary to GTE's suggestion, however, neither auctions nor additional cost studies will be necessary to adjust the funding requirement as competition develops. As TCG detailed in its comments, once the initial support ceiling is established, only periodic reviews of the rates and services offered by providers of basic service will be necessary to determine a new funding requirement based on the average rates charged by all carriers serving an area. Such reviews could be undertaken as frequently as determined to be necessary. TCG recommends that such reviews be completed every three years (or more often as market conditions dictate), both to monitor the impact of competition and to adjust the support requirement. Simply by periodically monitoring the rates charged by competing carriers, the Commission can obtain all the information it needs to adjust the funding requirement to reflect the impact of competition on reducing the subsidy requirement. Such reviews can be completed with a minimal commitment of the Commission's or Joint-Board's resources or the resources of the carriers.

Auctions, on the other hand, are by definition, difficult to design, cumbersome and expensive to administer, and useful only under special circumstances. One need only examine the recent auction of the wireless spectrum for PCS to get an idea of the time and resources necessary to conduct an auction successfully. The PCS auction took months to design and more months to complete, and required constant and considerable oversight by the Federal Communications Commission. GTE's proposal is just as complex and the complexity is compounded by necessity of conducting multiple auctions throughout the year.

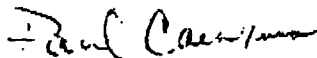
3. GTE, however, supports a return to the long-discredited backward-looking cost studies based on embedded cost, rather than forward-looking economic cost studies.

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For example, GTE would require the completion of five steps even before the carriers submit their first bid! And each step in itself represents a considerable administrative burden on both the Commission and the carriers each time an auction is conducted! The GTE proposal requires that each time the Commission contemplates a change to the funding level (and GTE recommends that the auctions be conducted as often as twice each year), it would have to identify the geographic boundaries of the auctions and would have to establish bidding schedules ("step 1"). The process is further complicated by carrier requests to adjust the auction boundaries ("step 3"), creating the possibility of seemingly endless adjustment of the auction parameters. Furthermore, GTE would require the Commission to verify each carrier's (unspecified) "eligibility requirements" not only once ("step 2") but twice ("step 4") each time an auction is undertaken. Not only could such requirements create unnecessary barriers to entry for some firms, it might also create an overwhelming administrative burden for the Commission. Even before the bids are submitted, GTE's "timeline" lays the foundation for an administrative quagmire that is as unnecessary as it is complicated.

While appropriate for the special circumstances of the wireless spectrum and potentially unserved areas, auctions cannot be completed quickly enough or cheaply enough to satisfy the industry's need for a rapid, efficient, and fair universal service adjustment mechanism. Insofar as the purpose of the auction is to reveal the value of the services provided to customers in a particular area, such information will be revealed in the marketplace in the prices charged to customers by both CLECs and incumbent LECs. An auction would only be redundant, expensive, and a substantial barrier to competition.

Sincerely,



Paul Cain
Director, Government Affairs
and Public Policy
(718) 355-2255

cc: Commissioner James H. Quello
John Morabito
Geanine Poltronieri

TCG Rates for DS 1 Service in Selected States
Tariff FCC No. 2

<u>State</u>	<u>Rate per Channel</u>	<u>Mileage Rate</u>		<u>Installation Rate</u> (per channel)
		<u>Fixed</u>	<u>Per Mile</u>	
Michigan	\$113	\$48	\$14	\$230
Pennsylvania (Pittsburgh)	157	44	13	0
Texas- SWB	109	36	11	500
Washington - USW	95	73	11	280
Connecticut	141	60	18	550
California - Pacific	110	52	13	500
Massachusetts	153	50	15	185
Missouri	126	41	13	500
Nebraska	95	73	11	280
New York	162	53	16	195
Florida	114	72	19	650
Illinois	113	42	14	230

Note 1 All rates are for a contract term of 3 years.

Note 2 The rates for California are for Zone 2.

Note 3 Per Mile rates for service in USWest territory vary (by \$1) according to mileage bands.
The rate shown is for the 0-25 mile band.
The calculations below reflect the rate for the appropriate band.

Monthly Recurring SubTotal
At Varying Interoffice Mileage

<u>Miles:</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>
<u>State</u>				
Michigan	\$226	\$392	\$462	\$532
Pennsylvania	314	423	488	553
Texas- SWB	218	309	364	419
Washington - USW	190	313	373	428
Connecticut	282	432	522	612
California - Pacific	220	337	402	467
Massachusetts	306	431	506	581
Missouri	252	358	423	488
Nebraska	190	313	373	428
New York	324	457	537	617
Florida	228	395	490	585
Illinois	226	380	450	520

Monthly Recurring SubTotal = 2 x Channel Rate + Fixed Mileage Rate + Miles x Mileage Rate

Note 1 Fixed Mileage Rate applies only when mileage is greater than 0.

Note 2 In Ameritech Region, Fixed Mileage Rate is doubled before adding to SubTotal.